COMPLIANCE AUDIT

University of Montana

For the Two Fiscal Years Ended June 30, 2019

MARCH 2020

Compliance Audits

A compliance audit is a component of the biennial financial-compliance audit. In these audits, the compliance and financial audits are combined for a two-year period to constitute the financial-compliance audit. Financial-compliance audits are classified as financial audits according to Government Auditing Standards. The primary objectives of the compliance audits are to determine compliance with regulations relating to contract and grant expenditures, other governmental financial assistance, and to test compliance with requirements of selected state laws, regulations, and rules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards.* This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Audit Staff

Reports can be found in electronic format at:
https://leg.mt.gov/lad/audit-reports

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

March 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our compliance audit report of the University of Montana for the two fiscal years ended June 30, 2019. The audit focused on compliance with federal requirements of the Research and Development federal assistance program. We also tested compliance with selected state laws and policies.

In accordance with federal audit guidance, we did not address the Student Financial Aid program. Federal audit guidance requires some programs not be audited each year, if they meet certain criteria. Student Financial Aid met these criteria, and as such we performed no work over it for the two fiscal years ended June 30, 2019. As required by federal regulations, it will be audited during the next compliance audit of the university.

This report contains four recommendations. The first recommendation addresses noncompliance with federal regulations related to suspended and debarred vendors for the Research and Development federal assistance program. The second recommendation is an ongoing recommendation related to testing of Banner access. The third recommendation relates to noncompliance with university procard policy and the fourth recommendation relates to an internal control deficiency and compliance with state accounting policy related to inventory of capital assets.

We thank the president and the university staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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FIGURES AND TABLES

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Appointed and Administrative Officials

		Term Expires
Board of Regents of Higher Education	Casey Lozar, Chair	February 1, 2025
	Paul Tuss, Vice Chair	February 1, 2020
	Joyce Dombrouski	February 1, 2026
	Robert A. Nystuen	February 1, 2022
	Brianne Rogers	February 1, 2024
	Martha Sheehy	February 1, 2021
	John Miller, Student Regent	June 30, 2020
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Elsie Arntzen, Superintendent of Public Instruction*	
	*Ex officio members	

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner for Academic and Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff
	Vivian Hammill	Montana University System (MUS) Chief Legal Counsel, Deputy Commissioner
	Diedra Murray	MUS Internal Auditor

University of Montana	Seth Bodnar	President

University of Montana–Missoula	Jon Harbor	Executive Vice President and Provost
	Cathy Cole	Vice President for Enrollment Management and Strategic Communication
	Paul Lasiter	Vice President for Operations and Finance (Effective January 2019)
	Scott Whittenburg	Vice President for Research & Creative Scholarship
	Renae Scott	Chief Information Officer
	Lucy France	Legal Counsel
	Dan Jenko	Controller
Montana Technological University (Butte)	Les P. Cook	Chancellor (Effective July 2019)
	Donald M. Blackketter	Chancellor (Through June 2019)
	Doug Abbott	Provost and Vice Chancellor for Academic Affairs (Effective December 2019)
	Beverly Hartline	Vice Chancellor for Research and Dean of Graduate School
	Joe McClafferty	Vice Chancellor for Development and University Relations
	Carleen Cassidy	Director of Finance and Budget
University of Montana–Western (Dillon)	Beth Weatherby	Chancellor and University Executive Vice President
	Deborah Hedeen	Provost and Vice Chancellor for Academic and Student Affairs
	Michael Reid	Vice Chancellor for Administration and Finance
	Vacant	Director of Business and Campus Services

Helena College University of Montana

Laura Vosejpka	Dean/CEO (Effective August 2019)
Kirk Lacy	Interim Dean/CEO (Through July 2019)
Sandra Bauman	Associate Dean for Academic and Student Affairs
Valerie Curtin	Acting Assistant Dean of Administrative Affairs
Traci Merzlak	Interim Director of Financial Aid

For additional information concerning the University of Montana (all campuses), contact:

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Compliance Audit
University of Montana
For the Two Fiscal Years Ended June 30, 2019

March 2020   19-12   Report Summary

The University of Montana (university) receives federal funding for Research & Development (R&D) at both the Missoula and Butte campuses. Federal funding for R&D increased slightly from $58.4 million in fiscal year 2018 to $58.8 million in fiscal year 2019. This report includes four recommendations, one related to the R&D federal assistance program. The other three recommendations are related to Banner access review, compliance with procard policy, and tagging and inventory of assets.

Context

The university includes four campuses which are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the university are University of Montana-Missoula, Montana Technological University, University of Montana–Western, and Helena College University of Montana. The campuses provide diverse programs leading to associate, undergraduate, and graduate degrees, as well as occupational certificates.

During the audit, we examined the university's compliance with federal regulations pertaining to the R&D program. We focused audit procedures on the University of Montana-Missoula, which expended $53.6 and $53.4 million of federal assistance for the R&D program in fiscal years 2018 and 2019, respectively. This represents over 90 percent of total federal assistance to the university for research and development during the audit period. We also performed specific audit procedures, such as gaining an understanding of internal controls, over the R&D federal activity at the university. This testing also included gaining an understanding of updates to controls, running queries, and performing testing over the Banner system. Banner is the university's accounting and information

system, which is used to process essentially all financial and payroll transactions. Additionally, we tested compliance with selected state laws and policies including procurement and travel policies, and laws related to leave time, financial aid rules, campus security, drug and alcohol courses, work-study, and the forest and conservation experiment station.

Results

This report contains four recommendations. The recommendations address noncompliance with federal regulations related to suspended and debarred vendors, testing user access to Banner, noncompliance with university procard policy, and improving internal control and compliance with state accounting policy related to inventory of capital assets.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

Chapter I – Introduction

Audit Objectives

We conducted a compliance audit of the University of Montana (university) for the two fiscal years ended June 30, 2019. The objectives of the audit were to:

1. Determine the university's compliance with federal regulations applicable to the Research and Development (R&D) federal program, including its implementation of internal controls over compliance.

2. Determine the university's compliance with selected state laws and regulations.

3. Provide recommendations for improvement in management and internal controls.

4. Determine the implementation status of prior audit recommendations.

In order to address the objectives above, we focused audit procedures on the University of Montana-Missoula, which expended $53.6 and $53.4 million in R&D federal funding in fiscal years 2018 and 2019, respectively. This represents over 90 percent of total federal assistance to the university for research and development during the audit period. We performed specific audit procedures, such as gaining an understanding of internal controls, over the R&D federal activity at the university. This testing included gaining an understanding of updates to controls, running queries, and performing testing over the Banner system. Banner is the university's accounting and information system, which is used to process most financial and payroll transactions. Additionally, we tested compliance with selected state laws and policies covering procurement, travel, leave time, financial aid rules, campus security, drug and alcohol courses, work-study, and the forest and conservation experiment station.

Background

The University of Montana is accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of Montana provide a diversity of undergraduate and graduate academic degrees.

The University of Montana-Missoula campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System (MUS) and operates the only law school in the MUS. Other schools/colleges include Business Administration, Education and Human Sciences, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Extended and Lifelong Learning, Honors, Graduate, and Journalism. In addition, the campus also includes the two-year Missoula and Bitterroot

colleges, which provide a broad range of technical and occupational education and training courses. The Montana Forest and Conservation Experiment Station is associated with this campus.

Montana Technological University, located in Butte, provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes the Highlands College, which provides core education courses and two-year degrees in various occupational and technical programs, and the Bureau of Mines and Geology, which provides advisory, technical, and informational services on the state's geologic, mineral, energy, and water resources.

University of Montana-Western, located in Dillon, provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

Helena College University of Montana is a two-year college offering associate degrees and technical proficiency certificates. It also provides studies toward upper-level and graduate-level programs.

Enrollment and Staffing

Table 1 below and Figure 1 (see page 3) present the university student full-time equivalent (FTE) enrollment, by campus, for the past four fiscal years. In fiscal years 2018 and 2019, the university had FTE student counts of 14,467 and 13,592, respectively. The university has seen a nearly 15 percent decrease in enrollment over the past four fiscal years.

Table 1
University of Montana Student FTE
Fiscal Year 2019

Campus	FY2019
University of Montana-Missoula	9,247
Montana Technological University	2,178
University of Montana-Western	1,363
Helena College University of Montana	804
Total	**13,592**

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Figure 1
University of Montana Student FTE

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.
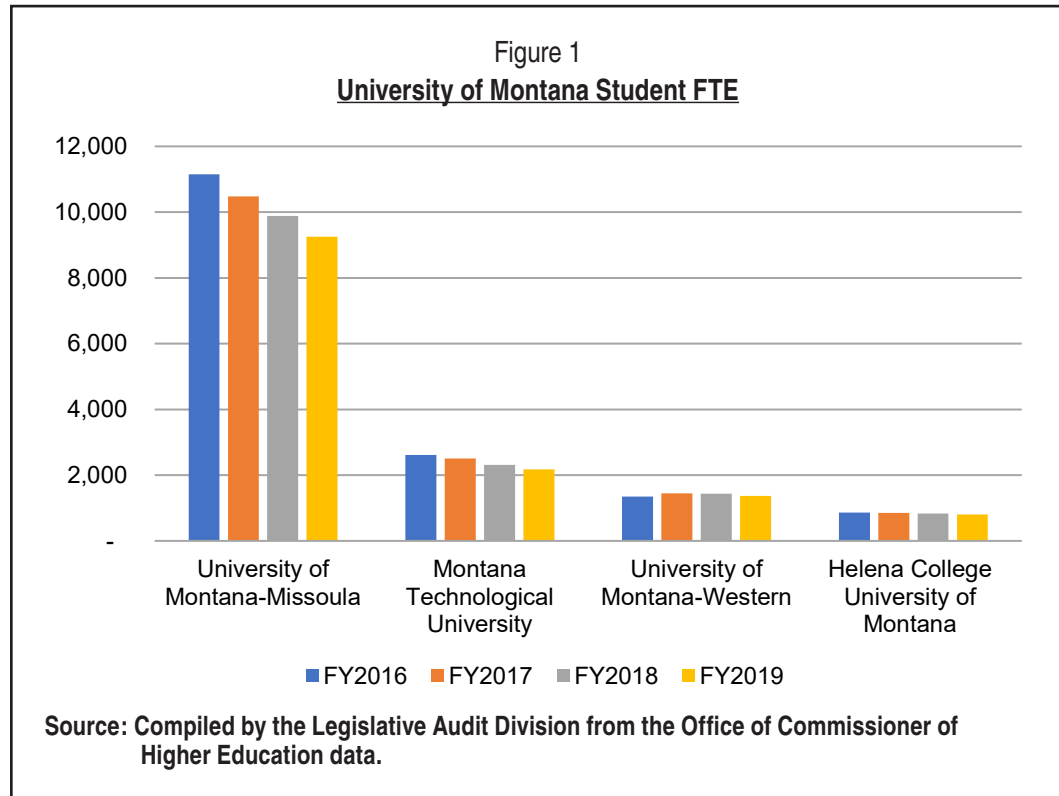
Table 2 presents the student FTE for fiscal year 2019 by academic level at each campus.

Table 2
University of Montana Student FTE by Academic Level
Fiscal Year 2019

Campus	Graduate	Undergraduate	Two-Year	Total
University of Montana-Missoula	1,895	6,275	1,077	9,247
Montana Technological University	173	1,693	312	2,178
University of Montana-Western	-	1,363		1,363
Helena College University of Montana			804	804
Total	**2,068**	**9,331**	**2,193**	**13,592**

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Figure 2 presents the student FTE for fiscal year 2019 by residential status at each campus.

Figure 2
University of Montana Student FTE by Residential Status

■ Resident   ■ Nonresident

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

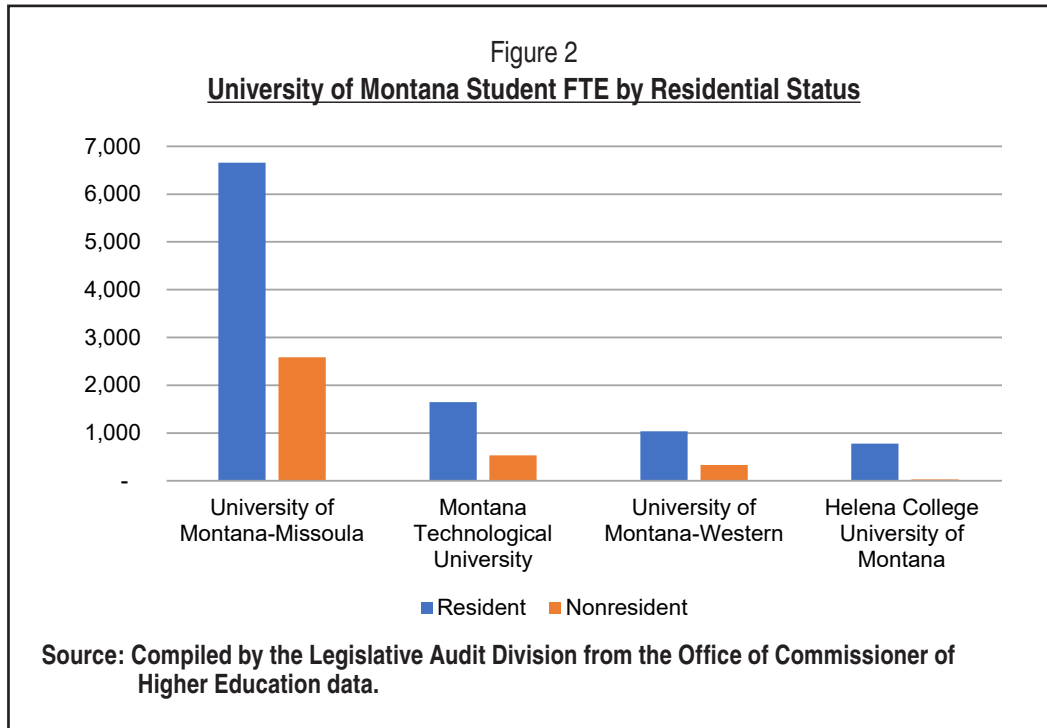Table 3 presents FTE employees at each campus of the university for fiscal year 2019.

Table 3
University of Montana FTE Employees
Fiscal Year 2019

Campus	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Teaching Assistant/ Graduate Research Assistant	Part-Time and Other	Total
University of Montana-Missoula	576.35	21.19	134.32	399.19	136.30	71.73	1,339.08
Montana Technological University	160.46	9.15	40.59	75.83	13.08	13.64	312.75
University of Montana-Western	83.82	4.91	19.11	46.39	-	2.07	156.30
Helena College University of Montana	39.91	2.95	13.20	31.31	-	2.00	89.37
Bureau of Mines	-	1.00	16.13	5.22	-	1.20	23.55
Forestry Conservation Station	7.99	-	0.89	2.68	-	1.35	12.91
Total	**868.53**	**39.20**	**224.24**	**560.62**	**149.38**	**91.99**	**1,933.96**

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

University of Montana Funding

The level of state support for the MUS is determined by the Montana legislature. The legislature appropriates state funds, comprised of general fund and six-mill levy revenues, in a lump sum for the educational units and all other higher education programs except the research and public service agencies, community colleges, and tribal college assistance programs. The Board of Regents allocates the lump sum state funding to the various programs and campuses. The Board of Regents' allocation formula is based upon resident enrollment and certain base fixed costs of each campus. Total state appropriations to the university was $90.5 million and $88.1 million for fiscal years 2018 and 2019, respectively.

Prior Audit Recommendations

The prior compliance audit of the university for the two fiscal years ended June 30, 2017, contained four recommendations. Three recommendations were implemented. These recommendations related to Student Financial Assistance excess cash, state procurement policy at Helena College, and fitness center memberships.

The prior audit recommendation related to Banner access review was partially implemented and is discussed in further detail in Recommendation #2, starting on page 8 of this report.

Chapter II – Findings and Recommendations

Suspended and Debarred Vendor Verification

The University of Montana (university) enters into procurement transactions using research and development federal assistance funds. The university did not verify if vendors were suspended and debarred as required by federal regulations.

The university receives federal assistance for research and development each year. The university spends a portion of these funds for procuring equipment. As part of the procurement process, vendors are selected from the university's procurement system. Vendors used in the university's procurement process are set up in Grizmart, the university's online procurement system.

Per federal regulations, nonfederal entities are prohibited from contracting with or making subawards to parties that are suspended or debarred. The university is a nonfederal entity. When the university enters into a transaction for goods or services over $25,000 with an entity, it must verify that the entity is not suspended or debarred. At the time vendors are set up in Grizmart, and at the time of the procurement transaction, the university did not verify vendors were not suspended and debarred during the audit period. Therefore, the university was not in compliance with federal regulation and did not have sufficient internal controls in place to ensure transactions were not conducted with suspended and debarred vendors.

The suspended and debarred process protects the federal government from fraud, waste, and abuse. An entity can be suspended and debarred for a variety of reasons, including: the commission of various crimes such as fraud, embezzlement, bribery, falsification or destruction of records, and tax evasion; violation of antitrust statutes; willful failure to perform one or more public agreements; or knowingly doing business with an ineligible person.

Per discussion with university staff, there was no process in place during the audit period. As part of our testing of federal compliance, we reviewed vendors who had entered into research and development procurement transactions with the university. Of the 85 transactions we reviewed from the audit period, none of the vendors were excluded from providing goods or services to the university. Without internal control, however, there is risk the university will unknowingly enter into a transaction with an excluded party.

After the audit period, the university entered into a new contract with a cloud-based supplier information management system. Sanction alerts, including suspension and debarments, are captured in this new system and reviewed by the university's vendor maintenance administrator. With the new system, suspended and debarred vendors will be reported to the university's accounts payable manager and the vendors will be excluded from the university's procurement process.

RECOMMENDATION #1

We recommend the University of Montana comply with federal regulations by establishing internal controls to verify vendors are not suspended or debarred from federal procurement transactions.

Banner Access Review

The university did not perform a review of user access to Banner during fiscal year 2019.

Banner is the university's accounting system. It is used to process most financial transactions, determine eligibility for Student Financial Aid, and process payroll transactions by using a series of tables and validation or rule forms. Banner is a commercial off-the-shelf software and is extensively used by educational institutions both within and outside the United States. Access to Banner is based on classes or profiles. Access is initiated electronically by an employee's supervisor and approved by the banner security coordinator. The university's internal control documentation states the Banner Security Plan will be reviewed and updated annually, including a review of current users and their security profiles.

In the prior audit, we recommended the university conduct annual security reviews in accordance with its internal control policy to ensure appropriate access is granted. An annual review had not occurred in either fiscal year 2016 or 2017. At the time, university staff stated the manual process used for this review in the past was labor intensive and cumbersome. An automated process was developed and a review was completed in November 2017. At the time of our current audit, this was the last security review conducted, so a review was not completed for fiscal year 2019.

Per discussion with university staff, a review of Banner security was started in fiscal year 2019, but not completed timely due to resource constraints and an inconsistent

review schedule. The university planned to complete this review by the end of calendar year 2019, approximately two years since the prior review.

By not completing the annual security review, the staff may not detect and prevent inappropriate access and modifications to Banner tables in a timely manner. During the audit we reviewed user access to tables that effect the financial activity and compliance with federal regulations over Student Financial Aid activity. We reviewed access to approximately 20 tables in Banner and identified one individual who had been terminated, but still had user access to multiple tables.

RECOMMENDATION #2

We recommend the University of Montana maintain internal controls to conduct annual security reviews in accordance with its internal control policy to ensure appropriate access is granted as documented in the security plan.

Department Procard Approval

For state funded procard transactions, the Montana Technological University (MT Tech) does not obtain department level approval as required by university policy.

At MT Tech, in Butte, procard transactions may be state funded or federal funded. For state funded procard transactions, procard transactions are reviewed by staff in the Financial Office, but no specific approval is obtained from the department level.

Per university procard policy, at the end of each billing cycle, all procard receipts should be collected and attached to the cardholder statement. The statement and receipts should be reviewed by the cardholder's department purchasing authority who will review, date, and sign the statements. The department purchasing authority's signature and date is required on all statements, which indicates that all purchases were approved and follow university policy. The purchasing authority is defined as the department director who understands the university's purchasing policies and can review charges to ensure reasonable purchases are made and are within the budget for the department.

The university relied on the Financial Office staff to review procard transactions during the audit period. The university is not in compliance with university procard policy as the department purchasing authority does not review procard transactions and no

signature and date is recorded on the procard statements for state funded transactions. The business manager in the Financial Office documents the review in Banner, the university's electronic accounting system.

University staff indicated the Financial Office staff reviewing the procard transactions have an overall understanding of the type of transactions that are normally processed, and would notify the department if they saw something unusual. Under the current process, there is a risk that the Financial Office staff do not have sufficient knowledge of whether transactions fall within an individual department's operations and budget.

RECOMMENDATION #3

We recommend the Montana Technological University comply with university procard guidelines for state funded transactions by obtaining approval from the department purchasing authority.

Accurate Inventory Tagging

Montana Western groups assets together on their capital asset listing and some assets are not tagged as required by state accounting policy, making accurate inventory difficult for university staff.

Montana Western keeps an inventory listing of all capital assets owned by the university to track the assets. Capital assets are assets that are not easily sold in the regular course of operations and are generally owned for its role in contributing to an entity's ability to generate profit. Examples of capital assets include equipment, art, and land. For accounting purposes, the threshold for capital assets is generally $5,000. The university has several assets grouped together on their asset listing. On the inventory listing some groups do not identify how many individual items are included in the group. Additionally, some individual assets and grouped assets are not tagged.

Per state accounting policy, all major equipment should be identified in the manner that promotes easy identification. Property tags should be placed in plain sight on the equipment. As part of our testing, we examined a selection of 23 items from the university's capital asset listing. Of the 23 items reviewed, 6 items on the listing were groups of assets. These assets included video equipment, signs, furniture, and exercise bikes. Additionally, of the 23 assets reviewed, 5 groups of assets and 5 individual items were not tagged with property tags as required by state accounting policy.

University staff indicated they group items if they consider them a "system", that is, multiple items which are related to each other. For some of the grouped items that did not have property tags, the tags are kept on separate inventory sheets with the number and type that belong to the tag, the individual assets are not tagged. By grouping assets on the asset listing, it could make it difficult for the university to complete an accurate inventory. The asset listing was not consistent in listing how many items were included in each grouped asset, so university staff would not know how many items to track. Additionally, for items not tagged, the university may not be able to track them or would not realize if they have been misplaced or are missing.

RECOMMENDATION #4

We recommend the University of Montana–Western:

A. *Tag assets in accordance with state accounting policy.*

B. *Maintain accurate inventory records to ensure inventory counts are complete and accurate.*

UNIVERSITY OF MONTANA

UNIVERSITY RESPONSE

UNIVERSITY OF MONTANA

umt.edu

March 10, 2020

Angus Maciver
Legislative Audit Division
Room 160 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

On behalf of the University of Montana, I want to extend our appreciation to you and your staff for their work on the University of Montana's Compliance Audit for the two fiscal years ended June 30, 2019. The University considers accountability for all funds important and values the input provided by the legislative audit staff.

Again, thank you and your staff for their assistance and attentive efforts.

Sincerely,

Seth Bodnar
President
University of Montana

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c: C. Christian, Commissioner of Higher Education

Office of the President

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UNIVERSITY OF
MONTANA
www.umt.edu

University of Montana Response
Re: Legislative Audit Division Compliance Audit - For the two fiscal years ended June 30, 2019.

Recommendation #1: We recommend the University of Montana comply with federal regulations by establishing internal controls to verify vendors are not suspended or debarred from federal procurement transactions.

University Response: The University concurs. The University started screening vendors automatically in June 2019. The screening is performed through PaymentWorks, a cloud-based supplier information management system. Sanction alerts, including suspensions and debarments, are captured in PaymentWorks and reviewed by the Vendor Maintenance Administrator. Suspended or debarred vendors are reported to the Accounts Payable Manager and excluded from the procurement process.

Recommendation #2: We recommend the University of Montana maintain internal controls to conduct annual security reviews in accordance with its internal control policy to ensure appropriate access is granted as documented in the security plan.

University Response: The University concurs. The University completed Banner security review for Fiscal Year (FY) 2019 in December 2019 and started FY 2020 security review in March 2020. Regarding the terminated individual who still had access to Banner tables, we reviewed logon dates and confirmed that the individual's last login was on August 18, 2018, two months before their termed date.

Recommendation #3: We recommend the Montana Technological University (MT Tech) comply with university ProCard guidelines for state funded transactions by obtaining approval from the department purchasing authority.

University Response: The University concurs. MT Tech will revise current procedures to ensure compliance with the University of Montana's ProCard guidelines.

Recommendation #4: We recommend the University of Montana-Western:
   A. Tag assets in accordance with state accounting policy.
   B. Maintain accurate inventory records to ensure inventory counts are complete and accurate.

University Response: The University concurs. The University of Montana-Western will revise procedures for capitalized assets to ensure all items are separately recorded and tagged.